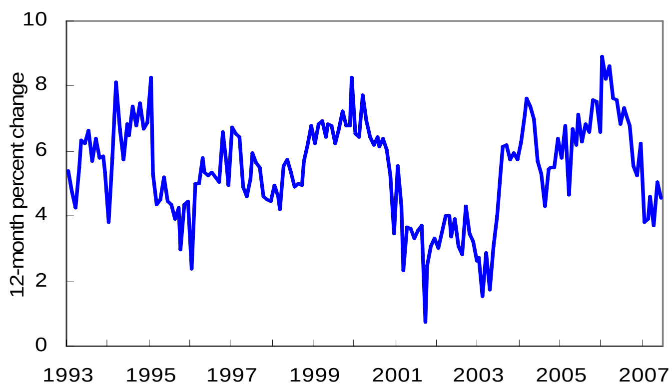
Joint Economic Committee
WEEKLY ECONOMIC DIGEST
Senator Charles Schumer, Chairman
Congresswoman Carolyn Maloney, Vice Chair
July 16, 2007

ECONOMIC NEWS

Sales Retreated Last Month

Retail sales dropped in June. Sales at retail establishments and food services declined by 0.9 percent last month, following a 1.5 percent increase in May. The June decline is the largest monthly drop since August 2005. The weakness in June was fairly pervasive: sales of motor vehicles and parts dropped by 2.9 percent, gasoline sales were down 1.1 percent, and all other sales declined by 0.3 percent. Excluding the volatile automotive categories, retail sales have risen by only 4.6 percent over the past 12 months (see chart).

Retail Sales Excluding Motor Vehicle and Gasoline Sales



Source: Bureau of Labor Statistics, U.S. Department of Labor.

The trade deficit widened in May. Exports of goods and services increased by $2.9 billion in May, but imports rose by $4.2 billion. As a result, the U.S. deficit for international trade in goods and services rose by $1.3 billion to $60.0 billion. Petroleum imports rose by 6.2 percent in May (largely reflecting increases in the price of imported oil) and accounted for most of the rise in total imports. The trade deficit remains unsustainably large and exports will have to grow substantially more rapidly than imports over a prolonged period for the trade balance to improve significantly.

Gasoline prices have moderated over the past month, but they remain high. The retail price of regular grade gasoline averaged $3.05 a gallon nationwide on Monday. That's up 7 cents from $2.98 per gallon last week but still down 17 cents from the peak price of $3.22 per gallon in the third week of May. The Department of Energy projects that the retail price of gasoline will have averaged $3.02 per gallon over the course of this year's summer driving season (April through September). That is 6.3 percent higher than the $2.84 per gallon average over last summer's driving season.

IN FOCUS

Arithmetic and Rhetoric in the Administration's Mid-Session Review

Last week, the Office of Management and Budget (OMB) released its Mid-Session Review of the federal budget for fiscal year 2008, its regular mid-year update of the budget estimates first published at the start of the year. OMB now estimates that the federal budget deficit will total $205 billion in the current fiscal year, or 1.5 percent of gross domestic product (GDP). OMB expects the federal deficit will rise to $258 billion in fiscal 2008 (1.8 percent of GDP) before gradually declining in subsequent years (see Snapshot).

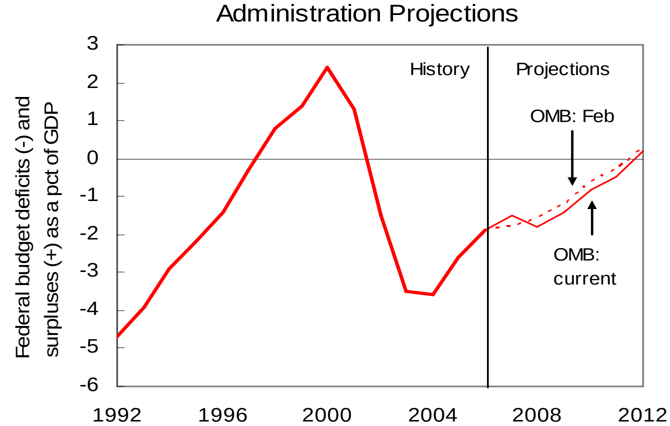
The Administration's updated deficit estimate for fiscal 2007 is $39 billion lower than it had projected in February. That reflects an upward revision of $34 billion to federal revenues in the current fiscal year. Most of those revenues are already on the books. Earlier this month, the Congressional Budget Office estimated that, through June, federal tax receipts are running 7.5 higher this fiscal year than they were in fiscal 2006. Corporate income tax receipts are 11.6 percent higher, and individual income tax receipts are 11.4 percent higher than last year.

The upward revision to current-year revenues does not carry forward beyond 2007 and the Administration's deficit estimate for fiscal 2008 is now $19 billion *higher* than the earlier projection. Indeed, the five-year pattern of projected

Continued on reverse...

SNAPSHOT

Federal Budget Balance: History and Administration Projections



Source: Office of Management and Budget and Bureau of Economic Analysis, U.S. Department of Commerce.

THE WEEK AHEAD

DAY	RELEASE
Tuesday 17	Producer Price Indexes (June 2007) Industrial Production and Capacity Utilization (June 2007)
Wednesday 18	Consumer Price Index (June 2007) New Residential Construction (June 2007)
Thursday 19	Usual Weekly Earnings of Wage and Salary Workers (Second quarter 2007)
Friday 20	Regional and State Employment and Unemployment (June 2007)

Wednesday, July 18th: Consumer Price Index for June

THE ECONOMY AT A GLANCE

KEY INDICATORS	MONTH			QUARTER			YEAR	
	June	May	Apr	2007 Q2	2007 Q1	2007 Q4	2006	2005
Real GDP Growth (%)	—	—	—	n.a.	0.7	2.5	3.3	3.2
Unemployment (% of labor force)	4.5	4.5	4.5	4.5	4.5	4.5	4.6	5.1
Labor Productivity Growth (%)	—	—	—	n.a.	1.0	2.1	1.6	2.1
Labor Compensation Growth (%)	—	—	—	n.a.	3.2	3.6	3.1	3.3
CPI-U Inflation (%)	n.a.	8.7	4.9	n.a.	3.8	-2.1	3.2	3.4
Core CPI-U Inflation (%)	n.a.	1.2	2.4	n.a.	2.3	1.9	2.5	2.2

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, Department of Labor.

Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private nonfarm businesses. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The designation "n.a." denotes that data are not yet available.

IN FOCUS (Continued)

budget imbalances is more disappointing than earlier this year. OMB is now projecting a cumulative deficit over the 2008-2012 period that is $137 billion higher than earlier reported. That amounts to an increased cumulative deficit of about 0.2 percent of GDP over the next five years relative to OMB's February projection.

The Administration presents the arithmetic of its updated budget estimates in a package of highly misleading rhetoric. The Administration says that the new budget estimates show that its tax and budget policies have promoted growth and it characterizes the declining deficits it projects for 2009-2012 as "maintaining fiscal discipline."

The Administration's upbeat budget rhetoric is completely at odds with the disappointing arithmetic of its budget policies. For example, independent analyses of the five major tax bills enacted over the 2001-2006 period show that the cumulative effect of those Administration-backed tax cuts have lowered federal revenues by well over $200 billion in 2007 alone. In other words, without those tax cuts, the federal budget would likely be in surplus, not the $205 billion deficit that OMB now predicts. Moreover, those tax cuts did not by any means pay for themselves. In an analysis of the tax cuts published last year, the nonpartisan Congressional Research Service concluded that "at the current time, as the stimulus effects have faded and the effects of added debt service has grown, the 2001-2004 tax cuts are probably costing more than expected." (Jane Gravelle, *Revenue Feedback from the 2001-2003 Tax Cuts*, Congressional Research Service, RL33672, September 27, 2006).

Far from "maintaining fiscal discipline," the Administration has maintained tax and budget policies that abandoned the legacy of fiscal discipline it had inherited in 2001. The Administration inherited a federal budget *surplus* that amounted to 2.4 percent of GDP in 2000. By 2006, federal deficits under the current Administration have worked to lower the national saving rate by over 3 percentage points of GDP. It will take more than rhetoric to reverse the course of the last six years of profligate tax and budget policies and to restore responsibility and credibility to the nation's long-term budget policy.